December 13, 2011

COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING, COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA REGARDING THE REVISED STRAW PROPOSAL FOR FLEXIBLE RAMPING PRODUCTS

In response to the ISO's request, the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, the "Six Cities") submit the following comments in response to the ISO's November 29, 2011 "Flexible Ramping Products Revised Straw Proposal" (the "Revised Straw Proposal").

The Six Cities strongly oppose the ISO's determination in the Revised Straw Proposal to allocate all Flexible Ramping costs to Load based upon the allocation of costs for Regulation Service. The initial Straw Proposal posted on November 1, 2011 included an allocation method that was aligned more closely with cost causation and would have allocated a portion of Flexible Ramping costs to resources based upon deviations. The Revised Straw Proposal gives no explanation for abandoning the cost causation principle and simply proposing to allocate all Flexible Ramping costs to Load.

The Revised Straw Proposal explicitly recognizes that resource variability and, in particular, increasing penetration of resources characterized by high variability, are substantial contributing factors to the ISO's need for additional Flexible Ramping capability. Indeed, the Revised Straw Proposal states at page 5 that it is the inability to accurately forecast the output of variable resources and the increased reliance on such resources that is driving the need for more operational flexibility than has been required in the past. It is fundamentally inconsistent with the cost causation principle to ignore the contribution of resource variability to the need for Flexible Ramping capacity in the allocation process and simply assign all Flexible Ramping costs to load.

The Revised Straw Proposal discusses at some length the ISO's plans to collect data regarding the contribution of resource deviations to Flexible Ramping requirements for purposes of "transparency." Transparency is a laudable objective, but it is unlikely to have any salutary impact on efficiency unless the cost causation data is translated into a price signal through the allocation process. If the ISO is able to implement the process of assembling data on deviations and their effects on Flexible Ramping requirements, there is no justification for failing to utilize that data to produce cost allocations that more closely track cost causation.

The Six Cities also object to the ISO's proposal to pay for energy from deployed Flexible Ramping resources at the RTD price for energy in addition to the payment for the Flexible Ramping products. Slide 10 of the November 7, 2011 presentation states that the marginal prices paid for Flexible Ramping products will include the opportunity costs of providing both Ancillary Services and RTPD energy. This indicates that the ISO effectively will be paying for the energy associated with the Flexible Ramping products whether or not the energy is dispatched. However, Slide 12 of the presentation states that the RTD energy deployment is not captured in the RTD opportunity cost. If the opportunity cost of not selling energy is included in the marginal prices for Flexible Ramping products, it is difficult to see how paying for energy that is deployed does not amount to double payment. At most, a Flexible Ramping resource directed to produce energy in RTD should receive any positive difference between the RTD energy price and the energy costs included in the RTPD payment times the quantity of energy deployed in the RTD.

Submitted by

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